


City of Greenbelt, Maryland

Memorandum

To: Greenbelt City Council
Via: Michael P. McLaughlin, City Manager 
From: Jeffrey L. Williams, City Treasurer
Date: April 7, 2016
Re: Practice of Changing Audit Firms Every Three Years

The practice of changing audit firms on a three-year rotation is based on the goal of having a “fresh pair of eyes” review the City’s financial records. Therefore, changing audit firms every three years appears to have some merit. However, when you consider the learning curve of a new audit firm, the practice does not achieve the desired result.

A new audit firm’s first year is spent learning how the City works. Only the most basic audit review is possible given the differences in the financial software systems, approaches of local governments for financial record keeping, and the time restraints of completing the audit within State mandated deadlines.

There is some improvement during the second year of an audit firm’s tenure, but the learning curve is generally not complete. By the third year, the audit firm has a good understanding of its local government client and at that point begins to look deeper into the City’s policies and procedures. Therefore, only the third year of the three-year cycle does the fresh look begin to payoff.

By contrast to the City’s three-year rotation, Gaithersburg has been with the same audit firm, McGladrey LLC, for more than 20 years. Gaithersburg’s approach requires that McGladrey staff performing field work and first level supervision be rotated every three to four years which generally occurs naturally with staff turnover. Upper level review including the secondary partner-level review remains constant which provides an institutional knowledge that is often invaluable.

The City of Bowie does not have a formal requirement to change auditors. However, its current five-year agreement with Cohn Reznick guarantees three years with an optional two additional years. The City of La Plata and City of Hyattsville follow a similar procedure. The City of La Plata is considering extending its current five-year agreement for an additional three years.

A longer term agreement allows for a more productive relationship between the municipal government and its auditor. It allows the auditor to develop its institutional knowledge of its municipal government client which provides a higher level of service. The institutional knowledge acquired by an audit firm is no less valuable than the services provided by legal counsel, engineering firms and other professional services that ensure the City is served well by its professional contractors.